Client Alert September 2026

Regulatory updates on the establishment of Indonesia International Financial Center

Background

Indonesia through People's Representative Council (*Dewan Perwakilan Rakyat* (DPR)), on 21 July 2026 has approved the enactment of Law on Indonesia International Financial Center (IIFC / *Pusat Finansial Internasional Indonesia* (PFII)) (IIFC Bill), marking a development in Indonesia's financial sector reform agenda and reflecting its efforts to strengthen its position as a regional and international financial hub.

As of the date of this publication, the official text of the PFII Law has not yet been released. Accordingly, this alert has been prepared based on our review of the latest available version of the legislation, and the information and analysis set out herein remain subject to confirmation upon the publication of the official text.

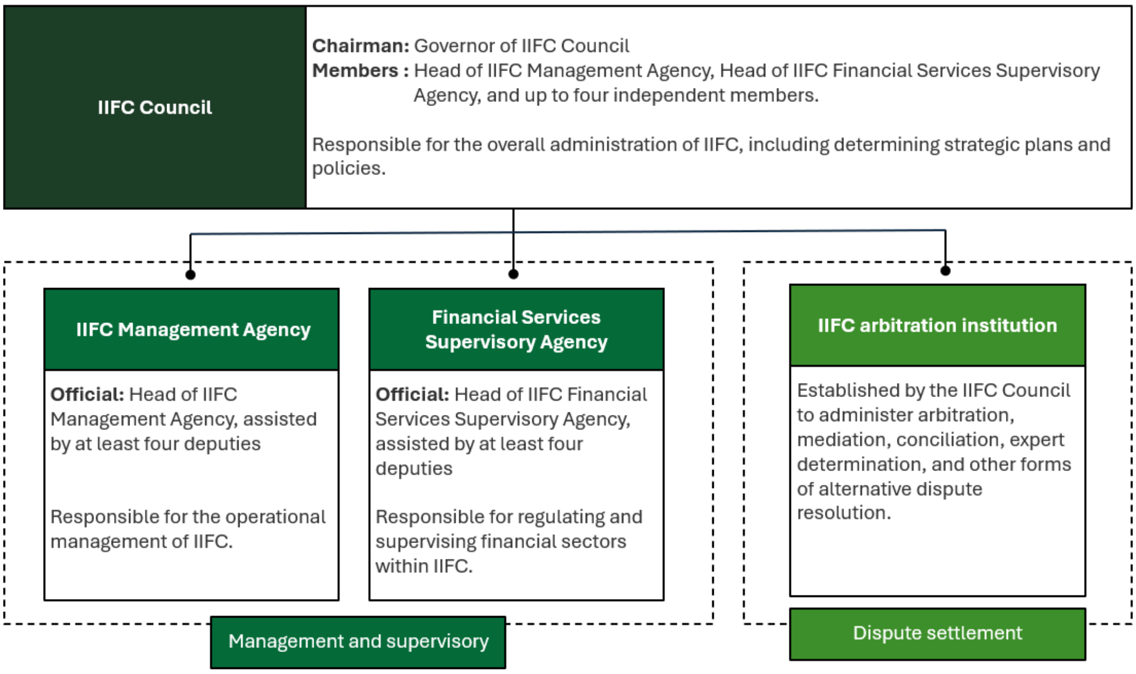
The IIFC Bill provides the umbrella legal framework for the establishment and operation of the IIFC, as mandated under Law Number 4 of 2026 on the Amendment to the Law on Financial Sector Development and Strengthening (P2SK Law Amendment) (please refer to Client Alert - July 2026).

This Client Alert highlights the following key provisions of the IIFC Bill:

- Dedicated governance structure for financial center;
- Eligible business activities;
- Court designed in line with international legal standards;
- Hybrid legal framework with common law features;
- Foreign currency and English-language regime for international transactions; and
- Government support and investment facilities: tax and nontax incentives for businesses operating within IIFC.

Key Provisions

Dedicated governance structure for financial center



The IIFC Bill establishes a dedicated governance structure for IIFC centered on the IIFC Council (*Dewan PFII*), which is given special (*sui generis*) authority over licensing, strategic policymaking, and the granting of special facilities within IIFC. The IIFC Council is chaired by the governor of IIFC and consists of independent members appointed and dismissed by the president of the Republic of Indonesia. This structure reflects the special status of IIFC as a financial center operating under a tailored institutional framework.

The day-to-day administration of IIFC is carried out by the IIFC Management Agency (*Lembaga Pengelola PFII* (LP PFII)), an independent body responsible for administrative management and the regulation of nonfinancial sectors within IIFC. The IIFC Management Agency may establish and/or cooperate with business entities to support the management and development of IIFC. The IIFC Bill also grants the IIFC Management Agency a degree of institutional and financial autonomy, including responsibility for managing its own profits, losses, and assets. Its assets are generally protected from seizure, except for assets that have been pledged as collateral. It may also obtain and provide loans and may not be able to be placed into bankruptcy, unless the IIFC Council formally determines that it is insolvent.

For financial services activities, the IIFC Law establishes the IIFC Financial Services Supervisory Agency (*Lembaga Pengawas Jasa Keuangan PFII* (LPJK PFII)), which regulates and supervises financial services and supporting financial services activities conducted within IIFC. This creates a special supervisory regime for IIFC-based financial activities. Market participants should assess how the authority of the IIFC Financial Services Supervisory Agency will interact with the existing role of the Indonesian Financial Services Authority (*Otoritas Jasa Keuangan* (OJK)), which continues to regulate and supervise Indonesia's broader financial services sector.

IIFC Council establishes IIFC arbitration institution to administer arbitration, mediation, conciliation, expert determination, and other forms of alternative dispute resolution.

Eligible business activities

In line with IIFC's objective to centralize financial services within a dedicated financial hub, the IIFC Law regulates and categorizes certain business activities that may be carried out within IIFC, as follows:

- Financial sector business activities, including:
  - banking;
  - insurance;
  - sharia finance;
  - capital market, derivative finance, and carbon exchange;
  - pension fund;
  - financing activities;
  - venture capital;
  - technological innovation in the financial sector;
  - guarantee activities;
  - international commodity trading;
  - bullion;
  - trust fund (trustee) services;
  - special purpose vehicle (SPV);
  - financial holding company;
  - money market, foreign exchange market and derivatives transactions related thereto;
  - family office; and
  - other financial sector business activities;
- Supporting activities for the financial services sector, including:
  - public accountant;
  - valuation or appraisal services;
  - notary;
  - legal consultant;
  - financial consultant; and
  - other supporting activities for the financial services sector; and
- Other sector business activities.

The IIFC Law prescribes the eligibility criteria and legal forms for business entities intending to carry out the above business activities within IIFC. In addition to establishing a business entity, either incorporated or unincorporated, business actors may also establish an SPV and/or trustee specifically to conduct securitization activities and/or manage trust funds.

Under the IIFC Bill, business actors conducting activities within the IIFC are subject to restriction on (i) raising funds from the public; and/or (ii) engaging in transactions with the domestic market or with retail consumers or customers located outside IIFC. An exception applies where the original source of the funds raised from the public is within IIFC.

Court designed in line with international legal standards

One of the notable provisions under the IIFC Bill is the establishment of the IIFC Court, a special court within Indonesia's general court system.

The IIFC Court operates as a court of first and final instance for commercial disputes relating to and within IIFC, with exclusive jurisdiction over disputes involving contracts and financial transactions, as well as the recognition and enforcement of national and international arbitral awards and the interpretation of laws and special regulations applicable to IIFC. Criminal matters and matters relating to national security remain under the jurisdiction of the district courts. In addition to commercial disputes, the IIFC Court is expected to have jurisdiction over disputes arising from the granting of IIFC tax facilities. This is an important feature for businesses operating within IIFC, as disputes relating to the eligibility, interpretation, or application of IIFC-specific tax facilities may fall within the scope of the IIFC Court.

The practical interaction between the IIFC Court and Indonesia's existing tax dispute framework, including the Tax Court, will be an important area to monitor once the implementing regulations are issued.

The IIFC Bill also provides for the IIFC Council to establish an arbitration institution within IIFC as an alternative dispute resolution mechanism alongside the IIFC Court. The establishment and further governance of the arbitration institution will be regulated under regulations issued by the IIFC Council.

This specialized dispute resolution framework is intended to provide a more focused and internationally oriented mechanism for resolving IIFC-related commercial disputes. For investors, the IIFC Court may become an important feature of the overall investment proposition, particularly where certainty, efficiency, and familiarity in dispute resolution are key considerations.

Additionally, the IIFC Bill requires the IIFC Court to integrate principles of international law into its judicial process. Although the chief judge and permanent judges of the IIFC Court are Supreme Court justices, the IIFC Bill allows the appointment of ad hoc judges who may be Indonesian or foreign nationals. The introduction of foreign ad hoc judges represents a development in Indonesia's judicial landscape and reflects an effort to incorporate international expertise into IIFC-related dispute resolution. This mechanism is intended to support the IIFC Court's technical capability, international orientation, and potentially contribute to greater investor confidence in the IIFC's dispute resolution framework. The IIFC Court is also permitted to determine its own procedural rules, subject to approval from the chief justice of the Supreme Court. In addition, the chief judge of the IIFC Court has authority to determine, regulate, and supervise rights of audience, practice licenses, disciplinary matters, and the conduct of advocates, legal consultants, and other parties appearing or practicing before or in connection with the IIFC Court.

While this framework is designed to support a certain dispute resolution environment, its practical interaction with Indonesia's existing court system, arbitration framework, and enforcement procedures will be an important area for market participants to monitor.

Hybrid legal framework with common law features

Another key feature of the IIFC Law is its openness to internationally recognized legal principles. Although IIFC remains subject to Indonesian law in principle, the IIFC Law allows the IIFC Council to determine specific rules and requirements in the areas of civil law and business activities, following consultation with the government.

The IIFC Bill also allows IIFC to adopt or integrate common law principles, equity principles, international commercial law, practices of international financial centers, and international standards. Indonesia is generally associated with a civil law-based system, in which written laws and regulations serve as the primary basis of the legal framework and courts play an active role in examining and resolving disputes. The introduction of common law and equity principles within IIFC may make the legal environment more familiar to international financial institutions, global investors, and participants in cross-border transactions.

However, the practical scope and legal effect of these principles will need to be carefully assessed, particularly in relation to how they are applied by the IIFC Court and how they interact with Indonesia's broader legal framework.

Foreign currency and English-language regime for international transactions

The IIFC Law provides that business activities conducted within IIFC may be carried out entirely in foreign currency, while the use of Rupiah is limited to supporting daily operational transactions.

This feature may be relevant to international market participants, particularly in the context of structuring, documenting, and settling cross-border financial transactions involving different currencies. At the same time, businesses should assess how this currency regime will interact with Indonesia's mandatory Rupiah requirement for transactions conducted within Indonesian territory.

The IIFC Bill also provides that English is the official language for IIFC regulations, contracts, and court proceedings.

However, given Indonesia's general legal requirement to use the Indonesian language in laws, official state documents, and agreements involving Indonesian parties, businesses should pay careful attention when structuring contracts, regulatory submissions, and dispute resolution documents relating to IIFC.

Government support and investment facilities: tax and nontax incentives for businesses operating within IIFC

The IIFC Bill provides that the government will support the operation and development of IIFC by formalizing such support through a memorandum of understanding or other forms of legislative and regulatory instruments. This provides a broad legal basis for the government to establish and implement various forms of support for IIFC, including through specific policy measures and regulatory arrangements.

The IIFC Bill introduces several tax and nontax incentives for businesses operating within IIFC. These incentives are designed to enhance Indonesia's competitiveness relative to other international financial centers and to attract financial institutions, fund managers, fintech companies, family offices, professional services firms, and other international business participants.

At a high level, the tax facilities contemplated under the IIFC Bill may be summarized as follows:

Category	Facility
Financial sector business actors	Up to 100% income tax reduction for qualifying IIFC financial sector activities
Financial sector supporting business actors	Up to 100% income tax reduction for qualifying supporting professional services within IIFC
Other sector business actors within IIFC	Up to 100% income tax reduction for qualifying non-financial sector activities within IIFC
Foreign financial sector experts	Up to 100% individual income tax reduction
Foreign investors	Exemption from income tax withholding and/or collection on qualifying IIFC investment income
Golden visa holders	Potential exclusion from Indonesian domestic tax subject status
Strategic goods/services/imports	VAT not collected, exemption from luxury goods sales tax, and exemption from import duties

For large multinational groups, the interaction between IIFC tax incentives and global minimum tax rules should also be assessed. Accordingly, the practical value of the IIFC incentives should be considered, not only based on the headline tax facilities but also considering the group's overall tax profile, regulatory requirements, substance expectations, and future implementing regulations.

The IIFC Law also provides nontax facilities, including golden visa facilities, legal certainty for unrestricted repatriation of capital and profits in foreign currency, and other special facilities in areas such as immigration, employment-related licensing, and stay permits.

In this regard, the availability of the above facilities will be subject to further implementing regulations setting out, among other things, the detailed eligibility criteria, scope of qualifying income or transactions, duration of incentives, reporting obligations, and conditions for obtaining and maintaining the relevant facilities. Businesses and investors should also monitor the administrative requirements and potential sanctions relating to the use of IIFC tax facilities.

Key takeaways

The enactment of the IIFC Bill represents a significant development in Indonesia's financial sector reform agenda. By introducing a new governance structure, a special court, English-language proceedings, foreign ad hoc judges, potential common law principles, foreign currency flexibility, and potential tax as well as non-tax incentives, Indonesia is creating a new platform designed to compete for international financial activity. For investors and businesses, IIFC may offer a more internationally oriented gateway to Indonesia's financial markets.

While the IIFC Bill establishes a dedicated legal and institutional framework for IIFC, there are still some uncertainties regarding how activities within IIFC will be conducted and regulated in practice.

Several key legal and regulatory points under the IIFC Law should be closely assessed, particularly in relation to:

- The division of supervisory authorities between the IIFC Financial Services Supervisory Agency and OJK, including the potential for overlapping supervision between the two institutions and the impact on businesses operating inside and outside IIFC;
- The jurisdiction and procedural framework of the IIFC Court;
- The application of common law and international commercial principles within Indonesia's civil law-based legal system;
- The interaction between IIFC's foreign currency and English-language regime and Indonesia's mandatory Rupiah and Indonesian language requirements, including the potential impact on transactions conducted outside IIFC by businesses operating inside and outside IIFC;
- The forms of government support that may be provided through a memorandum of understanding or other legislative and regulatory instruments, including whether such support will take the form of technical assistance, financial support, or other forms of facilitation.
- The scope, eligibility criteria, duration, reporting obligations, and implementation mechanism for tax and nontax incentives, including the interaction with global minimum tax/QDMTT rules for large multinational groups;
- The interaction between the individual tax provisions introduced under the IIFC Law and the existing Indonesian Income Tax Law, including: (a) the determination of tax residency status for foreign individuals working within IIFC or holding a golden visa under the IIFC framework; (b) the process for obtaining an exemption from income tax on certain Indonesian-sourced income derived by eligible individuals; and (c) the scope of the tax facilities available to eligible individuals;
- The governance framework for trustees and family offices, which remains subject to further clarification since the relevant technical and implementation regulations governing these activities have not yet been issued and implemented;
- The treatment of contracts, licenses, regulatory approvals, and dispute resolution mechanisms for entities operating both inside and outside IIFC; and
- The alignment of global visa provisions under the IIFC framework with the existing global visa framework.

The implementation of the IIFC framework, including the above points, will largely depend on the clarity of its implementing regulations, the effectiveness of institutional coordination, and how IIFC's special regime is integrated with Indonesia's existing legal system. Further clarity on the implementing regulations and practical implementation of the IIFC framework will therefore be important to monitor.

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